

Message Text

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ACTION ARA-14

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E.O. 11652: N/A
TAGS: BENC, AR
SUBJECT: MAJOR PROJECTS: AWARD OF TIERRA DEL FUEGO UNDERWATER GAS
PIPELINE CONTRACT

1. ON DECEMBER 5, 1977, THE STATE OWNED GAS COMPANY, GAS DEL ESTADO, AWARDED A US\$ 60 MILLION CONTRACT FOR AN UNDERWATER GAS PIPELINE ACROSS THE STRAITS OF MAGALLANES TO THE FRENCH FIRM ENTREPOSE (GTM) POUR LES TRAVAUX PETROLIERS MARITIMES (ETPM). TWO OTHER FIRMS, BOTH U.S. BASED, BID ON THIS PROJECT, FINANCED BY THE INTER AMERICAN DEVELOPMENT BANK (IDB), OCEANIC CONTRACTORS INC., OF NEW ORLEANS, AND SANTA FE INTERNATIONAL CORP. OF ORANGE, CALIF. THE AWARD WENT TO THE FRENCH DESPITE THE FACT THAT OCEANIC UNDERBID THEM. THE ETPM BID WAS US\$ 57 MILLION, THE OCEANIC BID US\$ 42 MILLION AND SANTA FE BID US\$ 62 MILLION. GAS DEL ESTADO OFFICIALS ATTRIBUTE THE AWARD TO THE FRENCH TO THE FACT THAT NEITHER WAS WILLING TO POST THE GUARANTEE BOND AS REQUIRED BY THE SPECIFICATIONS, FOR EXAMPLE. NOR WOULD OCEANIC ACCEPT RESPONSIBILITY FOR LOSSES DURING CONSTRUCTION PHASE ARISING FROM WEATHER FACTORS. ACCORDING TO LOCAL IDB REPS, SANTA FE STATED IN ITS PROPOSAL THAT IT COULD NOT PRECISELY MEET ALL OF REQUIREMENTS OF SPECS (WITHOUT
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SPECIFYING WHICH) AND THAT THESE DETAILS COULD BE SUBJECT TO SUBSEQUENT NEGOTIATION.

2. LOCAL REP SAYS HE BELIEVES FRENCH WERE LIBERAL WITH THEIR COMMISSIONS, THOUGH HE DOES ADMIT OCEANIC FAILED TO MEET SPECS IN THE SENSE THAT THEY WOULD NOT AGREE TO GUARANTEE BOND UNLESS IT INCLUDED PROVISION FOR CHANCE

TO REPAIR DAMAGE AND GRACE PERIOD FOR UNDERTAKING REPAIRS.
WE HAVE BEEN UNABLE TO CONTACT LOCAL SANTA FE REPS FOR COMMENT.

3. COMMENT: CONTRACT WAS BID TWICE, THE FIRST TIME IN SEPTEMBER 1977 WHEN OCEANIC BID US\$25 MILLION - EXACTLY HALF OF FRENCH BID. ACCORDING TO GAS DEL ESTADO, THEIR CONSULTANT, R.J. BROWN OF HOLLAND, AT THAT TIME RECOMMENDED AWARD TO FRENCH ON GROUNDS THAT TECHNICAL APPROACH OF OCEANIC TO PROJECT NOT ADEQUATE. REBID WAS NECESSARY BECAUSE NONE OF FIRMS MET SPECS FULLY AND GAS ALLEGEDLY FEARED AWARD TO FRENCH WOULD BE IMPUGNED BY OCEANIC, SINCE THE FIRM HAD ALREADY APPROACHED THE IDB AND USDOC ABOUT THE MATTER. THE EMBASSY WAS ALSO ACTIVE ON THEIR BEHALF.

4. OCEANIC'S SECOND BID APPARENTLY CORRECTED THE TECHNICAL DEFICIENCY WHICH REPORTEDLY HAD BEEN THE CAUSE OF THE REJECTION OF ITS FIRST BID, BUT GAS DISQUALIFIED THEM FOR FAILING TO POST THE GUARANTEE BOND AND FOR FAILING TO MEET OTHER REQUIREMENTS OF SPECIFICATIONS. THERE IS NO EVIDENCE THAT CHANCES OF U.S. FIRMS WERE HURT BY THE USG'S NEGATIVE VOTE IN OCTOBER 1977 IN THE IDB ON THE OVERLAND STAGE PIPELINE PROJECT. HOWEVER, IN THE VIEW OF THE MCDERMOTT REPRESENTATIVE, OUR VOTE, COMING AT A CRUCIAL MOMENT FOLLOWING THE SECOND BID AND BEFORE LIMITED OFFICIAL USE

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THE DECISION ON THE AWARD HAD BEEN TAKEN, DID NOT HELP MATTERS. BE THAT AS IT MAY, WHILE THERE IS ROOM TO ARGUE THAT FRENCH MAY HAVE BEEN FAVORED FOR REASONS UNRELATED TO THE QUALITY OF THEIR BID, THERE IS NO FIRM EVIDENCE TO THIS EFFECT. AS IDB GAVE CLOSE SCRUTINY TO THE BID PROCESS AND FOUND IT TECHNICALLY CORRECT, THERE SEEMS TO BE LITTLE BASIS FOR FORMALLY QUESTIONING IT. A MORE LIKELY EXPLANATION IS THAT LAWYERS FOR ETPM FIRM DISPLAYED GREATER FLEXIBILITY IN MEETING DEMANDS OF BID SPECIFICATIONS THAN DID THEIR US COUNTERPARTS - UNFORTUNATELY AN ALL TOO COMMON PROBLEM WHEN US FIRMS ARE COMPLETING WITH EUROPEANS AND JAPANESE FOR GOVERNMENT CONTRACTS HERE.
CASTRO

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